

Notes to Financial Statements

DECEMBER 31, 1988 AND 1987

1. Summary of Significant Accounting Policies:

General. These statements do not include accountability for assets and liabilities of closed insured banks for which the Corporation acts as receiver or liquidating agent. Periodic and final accountability reports of the Corporation's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

U.S. Treasury Obligations. Securities are shown at amortized cost which is the purchase price of securities less the amortized premium or plus the accreted discount. Such amortizations and accretions are computed on a daily basis from the date of acquisition to the date of maturity. Interest is also calculated on a daily basis and recorded monthly using the constant-yield method.

Allowance for Loss. The Corporation records as a receivable the funds advanced for assisting and closing banks and establishes an estimated allowance for loss. The allowance for loss represents the difference between the funds advanced and the expected repayment, based on the estimated cash recoveries from the assets of the assisted or failed bank, net of all liquidation costs. The Corporation has recorded the estimated losses related to all banks that have been closed, or that have entered into financial assistance agreements, or that the Corporation has identified as probable to fail or in need of assistance as of year end. The Corporation establishes an estimate for potential loss regarding litigation against the Corporation in its Corporate capacity. The Corporation's Legal Division recommends these estimated losses on a case by case basis.

Depreciation. The cost of furniture, fixtures, and equipment is expensed at time of acquisition. This policy is a departure from generally accepted accounting principles, however, the financial impact is not material to the Corporation's financial statements. The Washington Office Buildings are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco Condominium Offices are depreciated on a straight-line basis over a 35-year estimated life.

Merger Assistance Losses and Expenses. The Corporation records the costs incurred for 13-C assistance and/or merger assistance with banks as a merger assistance loss. These costs, which are not liquidation related, are specified in the terms of the agreements and have no potential for recovery by the Corporation.

Nonrecoverable Insurance Expenses. Nonrecoverable insurance expenses are incurred by the Corporation as a result of (1) paying insured depositors in closed bank payoff activity; (2) administering and liquidating assets purchased in a corporate capacity; (3) bid-package preparation for assistance transactions; and (4) bridge bank operations.

Statements of Cash Flow. In November 1987, the Financial Accounting Standards Board issued Statement No. 95, Statement of Cash Flows (SFAS 95). The Corporation has elected to adopt the provisions of SFAS 95 by presenting the Statements of Cash Flow in place of the Statements of Changes in Financial Position. For purposes of implementing SFAS 95, the Corporation has defined cash equivalents as short-term highly liquid investments with original maturities of three months or less. This includes the daily purchase of one day Special Treasury Certificates. The Corporation has also elected to restate 1987 results for comparative purposes.

Reclassifications. Reclassifications have been made in the 1987 Financial Statements to conform to the presentation used in 1988.

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2. U.S. Treasury Obligations:

All cash received by the Corporation not used to defray operating expenses or for outlays related to assistance to banks and liquidation activities is invested in U.S. Treasury securities. The Corporation's investment portfolio consists of the following (in thousands):

December 31, 1988

<u>Maturity</u>	<u>Description</u>	<u>Yield to Maturity at Market</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Face Value</u>
One Day	Special Treasury Certificates	9.30	\$ 2,915,366	\$ 2,915,366	\$ 2,915,366
Less Than 1 year	U.S.T. Bills, Notes and Bonds	9.07	4,289,304	4,302,784	4,280,000
1-3 years	U.S.T. Notes and Bonds	9.21	5,004,351	4,935,705	4,900,000
3-5 years	U.S.T. Notes and Bonds	9.21	<u>3,998,989</u>	<u>3,809,137</u>	<u>3,900,000</u>
			<u>\$16,208,010</u>	<u>\$15,962,992</u>	<u>\$15,995,366</u>

December 31, 1987

<u>Maturity</u>	<u>Description</u>	<u>Yield to Maturity at Market</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Face Value</u>
One Day	Special Treasury Certificates	6.60	\$ 1,306,443	\$ 1,306,443	\$ 1,306,443
Less Than 1 year	U.S.T. Bills, Notes and Bonds	6.78	3,394,085	3,442,391	3,390,000
1-3 years	U.S.T. Notes and Bonds	7.81	5,158,332	5,355,063	5,080,000
3-5 years	U.S.T. Notes and Bonds	8.29	4,586,418	4,475,610	4,300,000
5-10 years	U.S.T. Notes and Bonds	8.55	<u>1,653,596</u>	<u>1,613,677</u>	<u>1,700,000</u>
			<u>\$16,098,874</u>	<u>\$16,193,184</u>	<u>\$15,776,443</u>

The unamortized premium, net of unaccrued discount, for 1988 and 1987 was \$212,644,000 and \$322,431,000, respectively. The amortized premium expense, net of accreted discount income, for 1988 and 1987 was \$95,724,000 and \$111,188,000, respectively.

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3. Net Receivables from Bank Assistance and Failures (in thousands):

	<u>December 31</u>	
	<u>1988</u>	<u>1987</u>
<u>Receivables from Bank Assistance:</u>		
Open banks	\$1,301,753	\$ 233,995
Facilitate deposit assumptions	36,000	87,600
Facilitate merger agreements	350,648	351,148
Allowance for losses	<u>(1,110,328)</u>	<u>(115,105)</u>
	<u>578,073</u>	<u>557,638</u>
 <u>Bridge Bank Receivable:</u>		
Capitalization	1,008,241	-0-
 <u>Continental Bank (CINB) Assistance:</u>		
Loans and related assets	2,153,189	2,531,644
Dividend receivable	12,797	9,973
Preferred stock	515,436	763,750
Allowance for losses	<u>(1,439,200)</u>	<u>(1,640,852)</u>
	<u>1,242,222</u>	<u>1,664,515</u>
 <u>Receivables from Bank Failures:</u>		
Insured Depositor Payoff	3,207,323	3,180,629
Depositors' claims unpaid	32,841	18,717
Purchase and Assumption transactions	8,456,417	6,897,625
Corporate Purchase transactions	500,999	280,634
Allowance for losses	<u>(9,338,789)</u>	<u>(6,828,337)</u>
	<u>2,858,791</u>	<u>3,549,268</u>
 Net Receivables	 <u>\$5,687,327</u>	 <u>\$5,771,421</u>

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3. Net Receivables from Bank Assistance and Failures (Continued):

Analysis of Changes in Allowance for Losses (in thousands):

	1988			
	Beginning Balance	Provision For Loss	Transfers And Adjustments	Ending Balance
Open bank assistance	\$ 115,105	\$ 53,271	\$ 941,952	\$ 1,110,328
CINB	1,640,852	(201,652)	-0-	1,439,200
Closed Bank:				
Insured Depositor Payoff	1,634,862	423,578	(4,428)	2,054,012
Purchase and Assumption	5,072,785	1,966,368	(54,891)	6,984,262
Corporate Purchases	120,690	179,825		300,515
Total Closed Bank	6,828,337	2,569,771	(59,319)	9,338,789
Liabilities for estimated bank assistance	1,236,952	3,877,376	(1,236,952)	3,877,376
Estimated losses from Corporation litigation	600	(500)	-0-	100
	<u>\$9,821,846</u>	<u>\$6,298,266</u>	<u>\$ (354,319)</u>	<u>\$15,765,793</u>
	1987			
	Beginning Balance	Provision For Loss	Transfers And Adjustments	Ending Balance
Open bank assistance	\$ 116,308	\$ (1,203)	\$ -0-	\$ 115,105
CINB	1,691,846	(50,994)	-0-	1,640,852
Closed Bank:				
Insured Depositor Payoff	975,148	659,721	(7)	1,634,862
Purchase and Assumption	4,005,253	1,089,488	(21,956)	5,072,785
Corporate Purchases	388,101	68,610	(336,021)	120,690
Total Closed Bank	5,368,502	1,817,819	(357,984)	6,828,337
Liabilities for estimated bank assistance	150,000	1,236,952	(150,000)	1,236,952
Estimated losses from Corporation litigation	6,251	(5,651)	-0-	600
	<u>\$7,332,907</u>	<u>\$2,996,923</u>	<u>\$ (507,984)</u>	<u>\$9,821,846</u>

The Corporation's liabilities for estimated bank assistance for prior years included amounts which were either transferred to other line items or which were adjusted through cash outlays.

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3. Net Receivables from Bank Assistance and Failures (Continued):First RepublicBank/NCNB Texas National (Bridge) Bank:

On July 29, 1988, the forty subsidiary banks of First RepublicBank Corporation, Dallas, Texas were declared insolvent by their chartering authority and subsequently closed, with the Corporation appointed receiver. Pursuant to the authority granted in 12 U.S.C. 1821 (i), the Corporation organized a new national "bridge" bank, called NCNB (North Carolina National Bank) Texas National Bank (the "Bank"), to purchase all assets and assume all deposits and certain other non-deposit liabilities from the failed institutions.

On November 22, 1988, the Corporation, NCNB Corporation, NCNB Texas Corporation, NCNB Texas Bancorporation, Inc., and NCNB Texas National Bank entered into a financial assistance agreement designed to capitalize and stabilize the new bridge bank. The key elements of the assistance program are embodied in the Assistance, Service, and Shareholders Agreements among and between the above mentioned parties. The following discussion outlines the major aspects of the Corporation's participation in the overall assistance program.

As part of the initial capitalization, the Corporation purchased 100% (8 million shares) of NCNB Texas National Bank nonvoting common stock for \$840.0 million (included above in the Bridge Bank Receivable). NCNB Texas Bancorporation (100% indirectly owned by NCNB Corporation) purchased 100% (2 million shares) of NCNB Texas National Bank voting common stock for \$210.0 million. Thus, the Corporation retains an 80% nonvoting equity interest in the bridge bank. NCNB Texas Bancorporation has an exclusive option to purchase the Corporation's shares for a premium over the initial per share price. The premium is a factor of the cumulative increase in book value per share of the Bank's common stock times an exercise premium multiplier (based on the exercise date). This option terminates on November 22, 1993. The Corporation expects full recovery of its common stock investment.

The new bridge bank began operations with all assets, deposits, and certain non-deposit liabilities (exclusive of \$1.051 billion in Corporation Assistance notes which are fully reserved for in the Allowance for Loss from Purchase and Assumption transactions above) from the failed First RepublicBank subsidiaries. In accordance with the November 22, 1988 Assistance Agreement, on the Commencement Date, NCNB Texas National Bank segregated into a Separate Asset Pool (SAP) account approximately \$9.2 billion of troubled loans, real estate properties, and other distressed assets, and wrote them down to market value. In addition, the Bank adjusted all assets (other than SAP assets) and liabilities to their respective fair market value, and established on its books a loan loss reserve equal to approximately 1.25% of the aggregate book value of its non-SAP loans. The Corporation's initial assistance in this transaction stemmed from funding the negative equity created by these mark to market revaluations of assumed assets and liabilities. The Corporation's payment for the resultant negative equity was in the form of (1) the assumption of \$1.0 billion of the Bank's Federal Reserve Bank indebtedness, and (2) the forgiveness of \$131.8 million of the Bank's \$300 million indebtedness to the Corporation under a revolving credit agreement, of which the remaining outstanding balance of \$168.2 million is included in the Bridge Bank Receivable above and was paid on January 11, 1989. Additionally, on January 20, 1989, the Corporation received a \$267.0 million payment from NCNB Texas National Bank as a result of subsequent settlement adjustments. The net of these three transactions, \$864.8 million, is included in Merger Assistance Losses and Expenses in the Statement of Income for 1988.

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3. Net Receivables from Bank Assistance and Failures (Continued):

Future financial exposure for the Corporation is centered primarily on the Separate Asset Pool. First, the Bank retains management and administrative responsibility with respect to the SAP (subject to Corporation oversight), but the Corporation has financial responsibility for any subsequent decline in the SAP value. The Corporation also must periodically reimburse the Bank for amounts by which the SAP expenses exceed income. Qualifying SAP expenses include those costs related to (a) administration of assets, (b) SAP cost to carry, and (c) management incentive fees (not to exceed \$48 million over the life of the SAP).

Secondly, the Corporation is obligated to fund the mark to market revaluation of troubled assets transferred to the SAP during a two year time frame. In addition to the initial transfer of assets, the Bank may, at its option, transfer unlimited qualifying assets (as described in the Assistance Agreement) to the SAP in the first year (through December 31, 1989), and up to \$750 million in qualifying assets in the second year (through December 31, 1990). The Corporation estimates that at the end of the two year option period, a total of approximately \$11.0 billion of distressed assets will have been transferred to the Separate Asset Pool. Corporation concurrence is required with regard to all distressed asset classifications (i.e., risk ratings) before these assets may be transferred to the SAP. All disputes will be settled by arbitration.

And third, in accordance with the terms of the Assistance Agreement, the Corporation has indemnified the affiliates, directors, officers, employees, and agents of NCNB Corporation and of NCNB Texas National Bank (other than those who were, at any time on or prior to July 29, 1988, employed by First RepublicBank Corporation or its affiliates) against costs, losses, liabilities, and expenses incurred in connection with certain claims that may arise as a result of this assistance transaction.

The Corporation estimates that its total loss associated with the First RepublicBank failure and the subsequent assistance to the bridge bank will approximate \$3.0 billion. Accordingly, the Corporation has established an Allowance for Loss and corresponding provision for \$2.135 billion, consisting of \$1.058 billion for Corporation assistance notes and related accrued interest due from the failed bank included in the Allowance for Loss from Purchase and Assumption transactions and \$1.077 billion included in liabilities for estimated bank assistance. The remaining loss of \$865 million, related to the bridge bank negative equity funding discussed above, is recorded as a merger assistance loss and expense.

After the later of the Majority Ownership Date (i.e., when NCNB Texas Bancorporation becomes owner of 51% or more of the Bank's outstanding Common Stock) or November 22, 1991, the Bank may require the Corporation to purchase all of the remaining Separate Asset Pool assets. The Corporation's purchase price shall be the book value of the remaining SAP assets plus or minus the cumulative amount of all gains and losses realized on disposition of SAP assets. The Corporation may either purchase the remaining SAP assets itself or direct that a newly chartered, Corporation funded, Liquidating Bank purchase the assets. In addition to the above noted transfer of assets, settlement of the Separate Asset Pool may occur (a) when the Bank ceases to be manager of at least 50% of the book value of the SAP assets, (b) when all SAP assets have been liquidated, or (c) on November 22, 1993 (the fifth anniversary of the Commencement Date). In these instances, the Corporation must pay to the Bank the sum of (i) the fair market value of the remaining SAP assets, (ii) the cumulative gain or loss on the SAP assets (both those previously liquidated and those remaining), and (iii) if a cumulative gain in item (ii) results, an additional deferred management incentive fee.

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3. Net Receivables from Bank Assistance and Failures (Continued):CINB Assistance:

The Continental Illinois National Bank and Trust Company of Chicago (CINB) assistance program provided by the Corporation, the Federal Reserve Board, the Comptroller of the Currency, and a group of major U.S. banks, received final approval from Continental Illinois Corporation shareholders on September 26, 1984. The key aspects of the assistance program applicable to the Corporation are embodied in an Assistance Agreement and an Implementation Agreement between the Corporation and CINB, Continental Illinois Corporation, and Continental Illinois Holding Corporation. During 1988, Continental Illinois Corporation changed its name to Continental Bank Corporation and the bank's name was changed to simply Continental Bank. Discussed below are the major aspects of the Corporation's participation in the assistance program.

After consummation of the assistance program on September 26, 1984, CINB transferred to the Corporation \$2.0 billion in troubled loans. The Corporation also received a three year \$1.5 billion promissory note from CINB which was paid in full on September 26, 1987, by transferring additional troubled loans to the Corporation. The \$3.5 billion troubled loan portfolio was, in part, funded by the Corporation's assumption of \$3.5 billion of Federal Reserve Bank of Chicago (FRB) indebtedness on behalf of CINB. These borrowings bear interest at specified rates established by the FRB and the U.S. Treasury. The range of rates paid on the debt for 1988 was 6.10% to 7.72%. The Corporation repays these borrowings by making quarterly remittances of its collections, less expenses, on the troubled loans. If there is a shortfall at September 26, 1989, the termination date of the assistance program, the Corporation will make up such deficiency with its own funds.

The Implementation Agreement provides for the Corporation to be reimbursed each quarter for its expenses related to administering the transferred loan portfolio and for interest paid on the FRB indebtedness. According to the terms of the Implementation Agreement, collections are to be applied quarterly in the following manner: 1) to the administrative expenses paid by the Corporation; 2) to the interest owing on the assumed indebtedness; 3) to fund the special reserve account such that this account plus accrued interest thereon is at least \$75 million; and 4) to principal owing under the FRB agreement.

Collection proceeds totaled \$556,849,000 for the year ended December 31, 1988. The collection proceeds were applied to administrative costs and interest expense of \$20,331,000 and \$167,653,000, respectively, and to the payment of principal owing under the FRB agreement amounting to \$368,865,000. The Corporation estimated an allowance for loss amounting to \$1,439,200,000, as of December 31, 1988, representing the difference between the amount the Corporation will pay the FRB and the collections on the disposition of the remaining assets after expenses.

The Corporation holds an option to acquire up to 40.3 million shares of Continental Bank Corporation common stock. Effective close of business December 12, 1988, a 4 to 1 reverse stock split was declared by Continental Bank which changes the number of shares available for purchase under the stock option to 10.075 million shares of new common stock. The option is exercisable only if the Corporation suffers a loss on the transferred loan portfolio, including unrecovered administrative costs and interest expense, and cannot be exercised prior to the fifth anniversary of the commencement date, September 26, 1989. The shares subject to the option are owned by Continental Illinois Holding Corporation, which is owned by the former stockholders of Continental Bank Corporation. If a loss occurs, the Corporation will be entitled to retain any remaining transferred loans and to exercise the option for one share of Continental Bank Corporation common stock for every \$20 of loss at the exercise price of \$0.00001 per share of common stock.

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3. Net Receivables from Bank Assistance and Failures (Continued):

In addition to the \$3.5 billion in troubled loans, the Corporation purchased \$1 billion of two non-voting Continental Bank Corporation preferred stock issues, consisting of (i) 32 million shares of Junior Perpetual Convertible Preference Stock for \$720 million and (ii) 11.2 million shares of Adjustable Rate Preferred Stock, Class A for \$280 million. The Corporation sold 10.5 million shares of the Junior Perpetual Convertible Preference Stock to an underwriting syndicate for proceeds of \$259,350,000 in December 1986. During December 1988, two sales of Junior Perpetual Convertible Preference Stock occurred, a private placement of 1 million shares to the Continental Bank Employee Stock Option Plan -- convertible to 5 million shares of common stock, and a public offering of 10 million shares -- convertible to 50 million shares of common, with an additional option for 1.25 million shares for oversubscriptions. Total proceeds amounted to \$277,200,000 in December 1988. Currently, the Corporation retains 10.5 million shares of the Junior Perpetual Convertible Preference Stock which, based on its conversion potential to Continental Bank Corporation new Common Stock, has a fair market value of as of December 31, 1988 of \$25.94 per share or \$272 million. Cash dividends received for the year ended December 31, 1988 on the Junior Perpetual Convertible Preference Stock and the Adjustable Rate Preferred Stock, Class A were \$8,600,000 and \$29,808,050, respectively.

Net Worth Certificate Program:

The net worth certificate program was established at the Corporation by authorization of the Garn-St Germain Depository Institutions Act of 1982. Under this program, the Corporation would purchase a qualified institution's net worth certificate and, in a non-cash exchange, the Corporation would issue its non-negotiable promissory note of equal value. The total assistance outstanding to qualified institutions as of December 31, 1988 and 1987, is \$321,897,000 and \$340,016,000, respectively. As of December 31, 1988 and 1987, the financial statements excluded \$321,897,000 and \$340,016,000, respectively, of net worth certificates, for which no losses are expected. The original authority to issue net worth certificates expired October 13, 1986. The Competitive Equality Banking Act of 1987 reinstated the net worth certificate program through October 13, 1991.

4. Property and Buildings:

Property and buildings consist of (in thousands):

	<u>December 31</u>	
	<u>1988</u>	<u>1987</u>
Land	\$31,850	\$28,283
Office buildings	56,197	54,281
Accumulated depreciation	(10,513)	(9,126)
	<u>\$77,534</u>	<u>\$73,438</u>

The Corporation's 1776 F Street property is subject to notes payable, included in accounts payable, accrued liabilities, and other, totaling \$5,939,000 and \$6,131,000 at December 31, 1988 and 1987, respectively.

A portion of depreciation expense is allocated to the failed banks as liquidation expense. In 1988 and 1987, the amount of depreciation expense allocated to the failed banks was \$496,000 and \$598,000 respectively.

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5. Liabilities for Estimated Bank Assistance:

The Corporation records an estimated loss for its future or potential assistance to those banks which the regulatory process has identified as being distressed and where ongoing negotiations and/or current agreement terms indicate that Corporation bank assistance will be necessary. The Corporation's outstanding liabilities for this estimated bank assistance as of December 31, 1988 and 1987, are \$3,877,376,000 and \$1,236,952,000 respectively.

6. Liabilities Incurred from Bank Assistance and Failures:

The Corporation's outstanding principal balances on liabilities incurred from bank assistance and failures are as follows (in thousands):

	<u>December 31</u>	
	<u>1988</u>	<u>1987</u>
Funds held in trust	\$ 233,278	\$ 37
Depositors' claims unpaid	32,841	18,717
Notes indebtedness	998,818	185,405
Guaranty assistance	14,539	-0-
Federal indebtedness	<u>3,316,178</u>	<u>2,623,472</u>
	<u>\$4,595,654</u>	<u>\$2,827,631</u>

Maturities of these liabilities for each of the next five years and thereafter are (in thousands):

<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994/Thereafter</u>
\$3,797,728	\$200,646	\$201,586	\$199,397	\$102,014	\$94,283

7. Assessments:

The Corporation assesses insured banks at the rate of 1/12 of one percent per year on the bank's average deposit liability less certain exclusions and deductions. The Corporation credits a legislatively authorized percentage of net assessment income to insured banks. Net assessment income is determined by gross assessments less administrative operating expenses and expenses and losses related to insurance operations. This credit is distributed, pro rata, to each insured bank as a reduction of the following year's assessment. If the ratio of the Deposit Insurance Fund to estimated insured deposits drops below 1.10 percent, the Corporation is mandated to reduce the percentage of the net assessment income credited to a limit of 50 percent. The ratio of the fund to total insured deposits is currently .83% at year end. For the years ended December 31, 1988 and 1987, losses and expenses related to insurance operations exceeded gross assessments. The Corporation did not pay an assessment credit to insured banks in either year and is unable to pay an assessment credit until assessment income exceeds allowable losses and expenses on a cumulative basis. The following computation reflects the cumulative balance of assessment income adjusted for allowable expenses (in thousands):

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7. Assessments (Continued):Net Assessment Income Credit Computation - Calendar Year 1988

Computation:

Gross assessment income - C.Y. 1988		\$ 1,764,132
Less: Carry-over of net losses and expenses from C.Y. 1987	\$4,102,433	
Administrative operating expenses	223,911	
Merger assistance losses and expenses	1,023,926	
Provision for insurance losses	6,298,266	
Nonrecoverable insurance expenses	<u>42,267</u>	<u>11,690,803</u>
Excess of losses and expenses over gross assessment income		9,926,671
Assessment credit adjustment - prior years		(639)
Net excess of losses and expenses over gross assessment income - C.Y. 1988		<u>\$9,926,032</u>

8. Pension Plan and Accrued Annual Leave:

The Corporation's eligible employees are covered by the Civil Service Retirement and Disability Fund. Total Corporation (employer) matching contributions to the Civil Service Retirement and Disability Fund for all eligible employees were approximately \$13,404,000 and \$12,194,000 for the years ending December 31, 1988 and 1987, respectively.

Although the Corporation funds a portion of pension benefits under the Civil Service Retirement and Disability Fund relating to its eligible employees and makes the necessary payroll withholdings from them, the Corporation does not account for the assets of the Civil Service Retirement and Disability Fund nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U. S. Office of Personnel Management (OPM) for the Civil Service Retirement and Disability Fund and are not allocated to the individual employers. OPM also accounts for all health and life insurance programs for retired Corporation eligible employees.

The Corporation's liability to employees for accrued annual leave is approximately \$14,698,000 and \$13,763,000 at December 31, 1988 and 1987, respectively.

9. Commitments:

The Corporation's lease agreements for office space are approximately \$114,536,000. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. During 1988 and 1987, lease space expense was \$34,038,000 and \$33,570,000 respectively. Leased space fees for future years are as follows (in thousands):

<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994/Thereafter</u>
\$25,854	\$18,658	\$15,154	\$13,254	\$10,713	\$30,903

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10. Supplementary Information Relating to the Statements of Cash Flow:

Reconciliation of net income (loss) to net cash provided by operating activities (in thousands):

	For the year ended December 31	
	<u>1988</u>	<u>1987</u>
Net Income (Loss)	\$(4,240,712)	\$ 48,525
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of U.S. Treasury obligations	95,724	111,188
Building depreciation	891	798
Provision for insurance losses	6,298,266	2,996,923
Accrual of assets and liabilities from bank assistance and failures	12,934	34,998
Loss incurred for debt assumption	1,000,000	-0-
Loss incurred by forgiveness of note receivable	131,759	-0-
Net cash disbursed for bank assistance and failures not impacting income	(2,447,464)	(1,812,224)
Increase (decrease) in accounts payable, accrued liabilities and other	60,999	(57,209)
(Increase) decrease in accrued interest receivable on investments and other assets	(204,951)	39,265
Net cash provided by operating activities	<u>\$ 707,446</u>	<u>\$ 1,362,264</u>

Schedule of noncash transactions incurred from bank assistance and failures (in thousands):

	For the year ended December 31	
	<u>1988</u>	<u>1987</u>
Increase (decrease) in net receivable from bank assistance and failures:		
Preferred stock	\$ 970,000	\$ -0-
Note receivable	2,100	(129,809)
Notes in lieu of cash	18,673	821,534
Depositors' claims unpaid	14,124	5,552
Transfer of allowance for loss	(941,952)	-0-
Decrease (increase) in liabilities incurred from bank assistance and failures:		
Notes payable	(990,773)	(691,725)
Pending claims of depositors	(14,124)	(5,552)
Liabilities for estimated bank assistance transfer	<u>941,952</u>	<u>-0-</u>
	<u>\$ -0-</u>	<u>\$ -0-</u>

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